

CITY OF WHITE CLOUD
NEWAYGO COUNTY, MICHIGAN
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008



REHMANN ROBSON

Certified Public Accountants

CITY OF WHITE CLOUD

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

December 12, 2008

Honorable Mayor and
Members of the City Council
City of White Cloud, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of White Cloud, Michigan (the "City") as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of White Cloud, Michigan. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of White Cloud, Michigan as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and major streets special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 12, 2008, on our consideration of the City of White Cloud's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of White Cloud's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the City of White Cloud's basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

As described in Note 10 to the financial statements, beginning capital assets and net assets of governmental activities were reduced by \$30,000, to remove the value of land that the City transferred to another government in a prior period.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF WHITE CLOUD
Newaygo County, Michigan

Management's Discussion and Analysis

For the year ended June 30, 2008

This section of the City of White Cloud's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2008.

Financial Highlights

Our financial status remained stable over the last year. Net Assets at June 30, 2008, totaled \$3,481,177 for governmental activities and \$556,929 for business type activities. Of these totals, \$3,170,921 and \$448,946 respectively, represented capital assets net of depreciation and related debt. Overall, net assets increased by \$71,058.

During the fiscal year ending June 30, 2008, the City initiated a number of activities and capital improvements throughout the City. Through a community partnership with Everett Township, the City initiated a community cleanup program. The City completed the skateboard park facility located at Smith Park. The City Campground continued to receive DDA support to upgrade water services to campsites. In a joint project with The Fremont Area Community Foundation and Newaygo County Road Commission, the City initiated an improvement project on North Street that included street repair and resurfacing, sidewalk replacement and the construction of a retaining wall. A 350-foot extension of the water main on Webster Street was upgraded to 4 inch piping to accommodate future growth. A grant from the Fremont Area Community Foundation was received for the improvement of the White Water site access site for the development of a walking trail, a fishery habitat and to enhance the park as a classroom environment for educational classes.

Overview of Financial Statements

The management's discussion and analysis introduces the City's basic financial statements. The basic financial statements include the City-wide financial statements, fund financial statements, and notes to the financial statements. The City also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The City-wide statements report information about the entity as a whole using accounting methods used by private companies. The statement of net assets includes all of the City's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two City-wide statements report net assets and how they have changed. Net assets are the difference between the City's assets and liabilities, and should be used to measure the City's financial health or position. Over time increases / decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the City you may also have to consider additional factors such as tax base changes, facility conditions, and personnel changes.

Most of the activities of the City are reported as governmental activities. These would include General, Major Street, Local Street, Campground, Cemetery, Drug Enforcement, Economic Development, Local Development, Improvement Revolving, Land Acquisition, Compensated Absences, and Motor Pool funds.

The Water fund is treated as a business activity where revenues of the activity are designed to pay for operations of the activity.

Fund Financial Statements

The fund financial statement provide more detailed information about the City's funds, focusing on significant (major) funds not the City as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The City Council also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The City has the following types of funds:

Governmental Funds: Most of the City's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the City's government-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The City's governmental funds include: General, Major Street, Local Street, Campground, Cemetery, Drug Enforcement, Economic Development, Local Development, Improvement Revolving, and Land Acquisition.

Proprietary Funds: These funds represent activities in the government, which are basically treated like private sector companies. These funds are designed to have revenues earned adequate to pay for the operations of the activity. These funds are presented on a full accrual method and will show no difference between the City's government-wide statements and fund statements presentation. The City's proprietary funds include: Water, Compensated Absences, and Motor Pool.

Financial Analysis of the City as a whole

City of White Cloud's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Assets						
Current and other assets	\$ 388,362	\$ 463,563	\$ 135,890	\$ 122,625	\$ 524,252	\$ 586,188
Capital assets, net	3,558,342	3,392,087	1,114,446	1,167,548	4,672,788	4,559,635
Total assets	3,946,704	3,855,650	1,250,336	1,290,173	5,197,040	5,145,823
Liabilities						
Long-term liabilities	423,027	455,625	675,895	697,099	1,098,922	1,152,724
Other liabilities	42,500	23,286	17,512	2,765	60,012	26,051
Total liabilities	465,527	478,911	693,407	699,864	1,158,934	1,178,775
Net assets						
Invested in capital assets, net of related debt	3,170,921	2,982,425	448,946	470,449	3,619,867	3,452,874
Restricted	164,418	206,716	-	-	164,418	206,716
Unrestricted	145,838	187,598	107,983	119,860	253,821	307,458
Total net assets	\$ 3,481,177	\$ 3,376,739	\$ 556,929	\$ 590,309	\$ 4,038,106	\$ 3,967,048

Net Assets: The City's combined net assets increased by \$71,058 during the year ended June 30, 2008, totaling \$4,038,106.

City of White Cloud's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues						
Program revenues:						
Charges for services	\$ 46,719	\$ 63,749	\$ 175,796	\$ 168,979	\$ 222,515	\$ 232,728
Operating grants and contributions	71,273	134,187	-	-	71,273	134,187
Capital grants and contributions	80,887	92,754	-	-	80,887	92,754
General revenues:						
Property taxes	294,831	285,338	-	-	294,831	285,338
Other	163,504	161,647	-	-	163,504	161,647
Unrestricted investment earnings	22,655	24,663	2,546	3,139	25,201	27,802
Loss on sale of capital assets	-	-	-	-	-	-
Total revenues	679,869	762,338	178,342	172,118	858,211	934,456

City of White Cloud's Changes in Net Assets (continued)

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Expenses						
Legislative	\$ 9,050	\$ 7,034	\$ -	\$ -	\$ 9,050	\$ 7,034
General government	68,599	206,421	-	-	68,599	206,421
Public safety	187,707	181,882	-	-	187,707	181,882
Public works	252,676	251,501	-	-	252,676	251,501
Recreation and cultural	41,844	28,734	-	-	41,844	28,734
Community and economic development	12,145	18,936	-	-	12,145	18,936
Drug Enforcement	2,420	-	-	-	2,420	18,936
Interest on long-term debt	990	1,955	-	-	990	1,955
Water	-	-	211,722	188,790	211,722	188,790
Total expenses	<u>575,431</u>	<u>696,463</u>	<u>211,722</u>	<u>188,790</u>	<u>787,153</u>	<u>885,253</u>
Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	104,438	65,875	(33,380)	(16,672)	71,058	49,203
Net assets, beginning of year, as restated	<u>3,376,739</u>	<u>3,310,864</u>	<u>590,309</u>	<u>606,981</u>	<u>3,967,048</u>	<u>3,917,845</u>
Net assets, end of year	<u>\$ 3,481,177</u>	<u>\$ 3,376,739</u>	<u>\$ 556,929</u>	<u>\$ 590,309</u>	<u>\$ 4,038,106</u>	<u>\$ 3,967,048</u>

Governmental Activities: The net assets for governmental activities increased by \$104,438.

Business-Type Activities: The net assets for business-type activities decreased by \$33,380.

Financial Analysis of the City's Funds

General Fund: This fund is used to record all activities of the City not required to be recorded in a separate fund. This would include City Council, administrative, election, building and grounds, police, zoning, parks, and other activities. The major source of revenue for the General fund is from the City property tax base and the revenue sharing from the State of Michigan. The total fund balance of the General fund decreased by \$34,910 during the year ended June 30, 2008, and totaled \$83,268.

Major Streets: This fund is used to record revenues and expenses for major streets located within the City. The major source of revenue comes from the State of Michigan in the form of Act 51 funding. This fund also records contributions from other entities and transfers from other funds contributing to paving projects. The major expense for this fund is construction of new paving projects and maintenance and snow removal. The total fund balance of the Major Streets fund increased by \$22,444 during the year ended June 30, 2008, and totaled \$75,645.

Local Streets: This fund is used to record revenues and expenses for local streets located within the City. The major source of revenue comes from the State of Michigan in the form of Act 51 funding. This fund also records contributions from property owners and transfers from other funds contributing to paving projects. The major expense for this fund is construction of new paving projects and maintenance and snow removal. The total fund balance of the Local Streets fund decreased by \$4,745 during the year ended June 30, 2008, and totaled \$34,274.

Cemetery: The major source of revenue is from the sale of cemetery plots and openings for burials. The expenses incurred are for maintenance. The total fund balance of the Cemetery fund decreased by \$4,016 during the year ended June 30, 2008, and totaled \$0.

Drug Enforcement: The major source of revenue is from the proceeds gained from police drug busts. These funds must be used for drug enforcement expenses. The fund balance of the Drug Enforcement fund decreased by \$334 during the year ended June 30, 2008, and totaled \$2,474.

Economic Development: The major source of revenue is from public and private organization contributions for community special events. The expenses are for promoting and putting on community special events. The fund balance of the Economic Development fund decreased by \$10,801 during the year ended June 30, 2008, and totaled \$0.

Police Grant: The major source of revenue is from grants from the State of Michigan. The expenses are for promoting public safety. This was a new fund in fiscal year 2007 / 2008. The fund balance of the Police Grant fund totaled \$580.

Park Campground: This fund is used to record revenues from a percentage of the fees collected at the campground and transfers from other funds for improvements. The major expenses are improvements such as electrical and water service additions and maintenance. The total fund balance of the Park Campground fund decreased by \$2,029 during the year ended June 30, 2008, and totaled \$0.

Local Development: The major source of revenue is from the default on the sale on a portion of the Industrial Park. The expenses are for Certification fees for the Industrial Park from the State of Michigan. The total fund balance of the Local Development fund decreased by \$250 during the year ended June 30, 2008, and totaled \$550.

Improvement Revolving: This fund is used to record revenues and expenses for major Construction projects. The major sources of revenue include State of Michigan Grants, Transfers from other funds, and donations from Private agencies. The total fund balance of the Improvement Revolving fund decreased by \$41,500 during the year ended June 30, 2008, and totaled \$22,088.

Land Acquisition: The fund is used to record revenues and expenses for major Construction projects. The major sources of revenue include State of Michigan Grants, Transfers from other funds, and donations from Private agencies. Two recent projects are a Medical Center project and an Airport Expansion project. The total fund balance of the Land Acquisition fund decreased by \$18,247 during the year ended June 30, 2008, and totaled \$31,861.

Water Fund: This fund is used to record revenues and expenses for the City water system. The revenues come from user charges and the expenses are incurred for operation and maintenance. The net assets for the Water fund decreased by \$33,380 during the year ended June 30, 2008, and totaled \$556,929.

Compensated Absences: This fund is used to administer vacation and sick leave balances. The revenues come from charges to other funds for fringe benefit costs. The expenses are the actual payments for fringe benefits. Other funds are also charged for accrued leave expense and payouts of Sick and Vacation benefits when an employee leaves are paid from this fund. The net assets for the Compensated Absences fund decreased by \$11,045 during the year ended June 30, 2008, and totaled \$0.

Motor Pool Fund: This fund is used to record the operation of the Department of Public Works and Police vehicles and equipment. The primary source of revenue comes from equipment rental fees charged to other funds of the City. The primary expenses are accrued from the operation and maintenance of vehicles and equipment. The net assets for the Motor Pool fund increased by \$7,487 during the year ended June 30, 2008, and totaled \$94,073.

Capital Assets

The net value of the governmental activities capital assets for the year increased \$166,255 and totaled \$3,558,342.

The net value of the business-type activities capital assets for the year decreased \$53,102 and totaled \$1,114,446.

Long-Term Debt Activity

The balance of installment debt of the governmental activities for the year decreased \$34,858 and totaled \$387,421.

The balance of installment debt of the business-type activities for the year decreased \$24,500 and totaled \$665,500.

Contacting the City's Management

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the City's finances and to demonstrate the City's accountability for the revenues it receives. If you have any questions concerning this report please contact Robert Sullivan, City Manager by calling (231) 689-1194 during the hours of 8 am to 5 pm, Monday through Friday.

BASIC FINANCIAL STATEMENTS

CITY OF WHITE CLOUD

Statement of Net Assets

June 30, 2008

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
Assets				
Cash and investments	\$ 318,708	\$ 77,880	\$ 396,588	\$ 151,571
Accounts receivable	50,447	49,386	99,833	-
Inventory	19,207	8,624	27,831	-
Capital assets not being depreciated	3,266,500	-	3,266,500	28,840
Capital assets being depreciated, net	291,842	1,114,446	1,406,288	2,451
Total assets	<u>3,946,704</u>	<u>1,250,336</u>	<u>5,197,040</u>	<u>182,862</u>
Liabilities				
Accounts payable	42,500	17,512	60,012	5,400
Long-term debt:				
Due within one year	57,207	29,428	86,635	-
Due in more than one year	365,820	646,467	1,012,287	-
Total liabilities	<u>465,527</u>	<u>693,407</u>	<u>1,158,934</u>	<u>5,400</u>
Net assets				
Invested in capital assets, net of related debt	3,170,921	448,946	3,619,867	31,291
Restricted for:				
Highways and streets	109,919	-	109,919	-
Debt service	550	-	550	-
Capital projects	53,949	-	53,949	-
Unrestricted	145,838	107,983	253,821	146,171
Total net assets	<u>\$ 3,481,177</u>	<u>\$ 556,929</u>	<u>\$ 4,038,106</u>	<u>\$ 177,462</u>

The accompanying notes are an integral part of these financial statements.

CITY OF WHITE CLOUD
Statement of Activities
For the Year Ended June 30, 2008

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary government					
Governmental activities:					
Legislative	\$ 9,050	\$ -	\$ -	\$ -	\$ (9,050)
General government	68,599	21,089	-	-	(47,510)
Public safety	187,707	3,628	3,614	-	(180,465)
Public works	252,676	17,659	51,245	80,887	(102,885)
Recreation and cultural	41,844	2,064	15,578	-	(24,202)
Community and economic development	12,145	2,279	836	-	(9,030)
Drug enforcement	2,420	-	-	-	(2,420)
Interest on long-term debt	990	-	-	-	(990)
Total governmental activities	575,431	46,719	71,273	80,887	(376,552)
Business-type activities:					
Water	211,722	175,796	-	-	(35,926)
Total primary government	<u>\$ 787,153</u>	<u>\$ 222,515</u>	<u>\$ 71,273</u>	<u>\$ 80,887</u>	<u>\$ (412,478)</u>
Component unit					
Downtown Development Authority	<u>\$ 64,003</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (64,003)</u>

(Continued)

The accompanying notes are an integral part of these financial statements.

CITY OF WHITE CLOUD
Statement of Activities (Concluded)
For the Year Ended June 30, 2008

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental</u>	<u>Business-type</u>		<u>Downtown</u>
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>	<u>Development</u>
				<u>Authority</u>
Changes in net assets				
Net (expense) revenue	\$ (376,552)	\$ (35,926)	\$ (412,478)	\$ (64,003)
General revenues:				
Property taxes	294,831	-	294,831	114,863
Other governmental sources	156,584	-	156,584	-
Unrestricted investment earnings	22,655	2,546	25,201	5,770
Other	6,920	-	6,920	1,480
	<u>480,990</u>	<u>2,546</u>	<u>483,536</u>	<u>122,113</u>
Total general revenues				
	104,438	(33,380)	71,058	58,110
Change in net assets				
Net assets, beginning of year, as restated	<u>3,376,739</u>	<u>590,309</u>	<u>3,967,048</u>	<u>119,352</u>
Net assets, end of year	<u>\$ 3,481,177</u>	<u>\$ 556,929</u>	<u>\$ 4,038,106</u>	<u>\$ 177,462</u>

The accompanying notes are an integral part of these financial statements.

CITY OF WHITE CLOUD

Balance Sheet Governmental Funds June 30, 2008

	General Fund	Major Streets	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and investments	\$ 63,607	\$ 62,997	\$ 89,196	\$ 215,800
Accounts receivable	790	-	-	790
Due from other governments	30,985	13,245	5,427	49,657
Prepaid items	15,858	1,593	958	18,409
Total assets	\$ 111,240	\$ 77,835	\$ 95,581	\$ 284,656
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 14,490	\$ 442	\$ 3,236	\$ 18,168
Accrued liabilities	12,668	1,748	518	14,934
Due to other governments	814	-	-	814
Total liabilities	27,972	2,190	3,754	33,916
Fund balances				
Reserved:				
Prepaid items	15,858	1,593	958	18,409
Unreserved:				
Undesignated, reported in nonmajor:				
Special revenue funds	-	-	36,370	36,370
Debt service fund	-	-	550	550
Capital project funds	-	-	53,949	53,949
Undesignated	67,410	74,052	-	141,462
Total fund balances	83,268	75,645	91,827	250,740
Total liabilities and fund balances	\$ 111,240	\$ 77,835	\$ 95,581	\$ 284,656

The accompanying notes are an integral part of these financial statements.

CITY OF WHITE CLOUD
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to the Net Assets of Governmental
Activities on the Statement of Net Assets
June 30, 2008

Fund balances - total governmental funds	\$ 250,740
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets not being depreciated	3,266,500
Add - capital assets being depreciated, net	244,668

An internal service fund is used by management to charge the costs of certain activities, such as equipment usage, earned but unused sick and vacation time, and other centralized costs, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities.

Add - net assets of governmental activities accounted for in the internal service fund	94,073
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Certain liabilities, such as compensated absences, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - notes and loans payable	<u>(374,804)</u>
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Net assets of governmental activities	<u><u>\$ 3,481,177</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF WHITE CLOUD
Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2008

	<u>General Fund</u>	<u>Major Streets</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes	\$ 294,831	\$ -	\$ -	\$ 294,831
Licenses and permits	1,380	-	-	1,380
Intergovernmental revenue:				
State	157,429	80,887	33,119	271,435
Local	7,700	-	28,101	35,801
Charges for services	17,083	-	6,166	23,249
Fines and forfeitures	5,647	-	-	5,647
Rentals	15,212	-	-	15,212
Interest	16,556	2,394	1,582	20,532
Other	6,895	20,298	25	27,218
	<u>522,733</u>	<u>103,579</u>	<u>68,993</u>	<u>695,305</u>
Total revenues				
	<u>522,733</u>	<u>103,579</u>	<u>68,993</u>	<u>695,305</u>
Expenditures				
Current:				
Legislative	9,051	-	-	9,051
General government	208,045	-	14,755	222,800
Public safety	182,229	-	2,865	185,094
Public works	115,344	81,135	39,382	235,861
Recreation and cultural	22,204	-	3,518	25,722
Community and economic development	-	-	12,145	12,145
Debt service:				
Principal	-	-	24,672	24,672
Interest expense	-	-	250	250
Capital outlay	-	-	60,234	60,234
	<u>536,873</u>	<u>81,135</u>	<u>157,821</u>	<u>775,829</u>
Total expenditures				
	<u>536,873</u>	<u>81,135</u>	<u>157,821</u>	<u>775,829</u>
Revenues over expenditures	<u>(14,140)</u>	<u>22,444</u>	<u>(88,828)</u>	<u>(80,524)</u>
	<u>(14,140)</u>	<u>22,444</u>	<u>(88,828)</u>	<u>(80,524)</u>
Other financing sources (uses)				
Transfers in	-	-	7,486	7,486
Transfers (out)	(20,770)	-	-	(20,770)
	<u>(20,770)</u>	<u>-</u>	<u>7,486</u>	<u>(13,284)</u>
Total other financing sources (uses)				
	<u>(20,770)</u>	<u>-</u>	<u>7,486</u>	<u>(13,284)</u>
Net change in fund balances	(34,910)	22,444	(81,342)	(93,808)
Fund balances, beginning of year	118,178	53,201	173,169	344,548
	<u>118,178</u>	<u>53,201</u>	<u>173,169</u>	<u>344,548</u>
Fund balances, end of year	<u>\$ 83,268</u>	<u>\$ 75,645</u>	<u>\$ 91,827</u>	<u>\$ 250,740</u>

The accompanying notes are an integral part of these financial statements.

CITY OF WHITE CLOUD
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2008

Net change in fund balances - total governmental funds	\$ (93,808)
--	-------------

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	193,289
Deduct - depreciation expense	(16,157)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct - change in net assets of internal service funds	(3,558)
Add - principal payments on notes payable	<u>24,672</u>

Change in net assets of governmental activities	<u><u>\$ 104,438</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF WHITE CLOUD
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance With Final Budget
Revenues				
Taxes	\$ 295,000	\$ 315,280	\$ 294,831	\$ (20,449)
Licenses and permits	2,000	2,000	1,380	(620)
Intergovernmental revenue:				
Local	4,000	8,200	7,700	(500)
State	156,700	156,700	157,429	729
Charges for services	18,650	18,650	17,083	(1,567)
Fines and forfeitures	7,150	7,150	5,647	(1,503)
Rentals	14,960	14,960	15,212	252
Interest	16,000	16,000	16,556	556
Other	3,900	3,900	6,895	2,995
	<u>518,360</u>	<u>542,840</u>	<u>522,733</u>	<u>(20,107)</u>
Total revenues				
	<u>518,360</u>	<u>542,840</u>	<u>522,733</u>	<u>(20,107)</u>
Expenditures				
Legislative:				
City Council and Mayor	9,622	9,622	9,051	(571)
	<u>9,622</u>	<u>9,622</u>	<u>9,051</u>	<u>(571)</u>
General government:				
Elections	2,700	2,700	2,668	(32)
Assessor	14,000	13,800	7,804	(5,996)
Attorney	2,000	14,700	25,851	11,151
Building and grounds	35,100	35,100	31,289	(3,811)
Manager and clerk	76,030	79,010	81,727	2,717
Board of review	1,000	1,000	864	(136)
Treasurer	27,857	30,557	30,033	(524)
Public relations	1,000	1,100	2,008	908
Other	21,950	24,550	25,801	1,251
	<u>181,637</u>	<u>202,517</u>	<u>208,045</u>	<u>5,528</u>
Total general government				
	<u>181,637</u>	<u>202,517</u>	<u>208,045</u>	<u>5,528</u>
Public safety:				
Police	164,946	164,946	151,536	(13,410)
Fire	24,000	24,100	24,016	(84)
Zoning	13,755	13,755	6,677	(7,078)
	<u>164,946</u>	<u>164,946</u>	<u>151,536</u>	<u>(13,410)</u>
Total public safety				
	<u>164,946</u>	<u>164,946</u>	<u>151,536</u>	<u>(13,410)</u>
Public works:				
Department of public works	110,227	110,227	113,954	3,727
Dam	200	200	146	(54)
Airport	3,000	3,000	1,244	(1,756)
	<u>110,227</u>	<u>110,227</u>	<u>113,954</u>	<u>3,727</u>
Total public works				
	<u>110,227</u>	<u>110,227</u>	<u>113,954</u>	<u>3,727</u>

(Continued)

CITY OF WHITE CLOUD
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Concluded)
For the Year Ended June 30, 2008

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Expenditures (concluded)				
Recreation and cultural:				
Parks and recreation	<u>\$ 18,798</u>	<u>\$ 22,098</u>	<u>\$ 22,204</u>	<u>\$ 106</u>
Total expenditures	<u>526,185</u>	<u>550,465</u>	<u>536,873</u>	<u>(13,592)</u>
Revenue over (under) expenditures	(7,825)	(7,625)	(14,140)	(6,515)
Other financing sources (uses)				
Transfers (out)	<u>-</u>	<u>-</u>	<u>(20,770)</u>	<u>(20,770)</u>
Net change in fund balances	(7,825)	(7,625)	(34,910)	(27,285)
Fund balances, beginning of year	<u>118,178</u>	<u>118,178</u>	<u>118,178</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 110,353</u></u>	<u><u>\$ 110,553</u></u>	<u><u>\$ 83,268</u></u>	<u><u>\$ (27,285)</u></u>
				(Concluded)

The accompanying notes are an integral part of these financial statements.

CITY OF WHITE CLOUD
Major Streets Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance With Final Budget
Revenues				
Special assessments	\$ 1,962	\$ 1,962	\$ -	\$ (1,962)
Intergovernmental revenue:				
State	87,000	87,000	80,887	(6,113)
Interest	500	500	2,394	1,894
Other	10,000	10,000	20,298	10,298
Total revenues	99,462	99,462	103,579	4,117
Expenditures				
Public works	99,462	99,462	81,135	(18,327)
Net change in fund balances	-	-	22,444	22,444
Fund balances, beginning of year	53,201	53,201	53,201	-
Fund balances, end of year	\$ 53,201	\$ 53,201	\$ 75,645	\$ 22,444

The accompanying notes are an integral part of these financial statements.

CITY OF WHITE CLOUD

Statement of Net Assets

Proprietary Funds

June 30, 2008

	Business-type Activities	Governmental Activities
	Water Enterprise Fund	Internal Service Funds
Assets		
Current assets:		
Cash and investments	\$ 77,880	\$ 102,908
Accounts receivable	49,386	-
Inventory	4,640	-
Prepaid items	3,984	798
	<hr/>	<hr/>
Total current assets	135,890	103,706
Non-current assets:		
Capital assets being depreciated, net	1,114,446	47,174
	<hr/>	<hr/>
Total assets	1,250,336	150,880
	<hr/>	<hr/>
Liabilities		
Current liabilities:		
Accounts payable	14,514	2,915
Accrued liabilities	2,998	5,669
Current portion of long-term debt	29,428	21,912
	<hr/>	<hr/>
Total current liabilities	46,940	30,496
Long-term liabilities:		
Compensated absences	5,467	23,258
Notes payable, net of current portion	641,000	3,053
	<hr/>	<hr/>
Total long-term liabilities	646,467	26,311
	<hr/>	<hr/>
Total liabilities	693,407	56,807
	<hr/>	<hr/>
Net assets		
Invested in capital assets, net of related debt	448,946	34,557
Unrestricted (deficit)	107,983	59,516
	<hr/>	<hr/>
Total net assets	\$ 556,929	\$ 94,073
	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

CITY OF WHITE CLOUD
Statement of Revenues, Expenses and
Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2008

	Business-type Activities	Governmental Activities
	Water Enterprise Fund	Internal Service Funds
Operating revenues		
Charges for services	\$ 170,008	\$ 157,726
Other	5,788	-
	<hr/>	<hr/>
Total operating revenues	175,796	157,726
	<hr/>	<hr/>
Operating expenses		
Personnel services	72,883	115,373
Professional and contractual services	14,560	-
Materials and supplies	2,323	26,319
Utilities	12,324	-
Repairs and maintenance	11,517	17,996
Insurance and bonds	4,662	932
Equipment rental	11,000	-
Depreciation	60,802	14,827
Miscellaneous	394	504
	<hr/>	<hr/>
Total operating expenses	190,465	175,951
	<hr/>	<hr/>
Operating loss	(14,669)	(18,225)
	<hr/>	<hr/>
Nonoperating revenues (expenses)		
Interest income	2,546	2,123
Interest expense	(21,257)	(740)
	<hr/>	<hr/>
Total non-operating revenues (expenses)	(18,711)	1,383
	<hr/>	<hr/>
Net income before transfers	(33,380)	(16,842)
	<hr/>	<hr/>
Transfers in	-	13,284
	<hr/>	<hr/>
Change in net assets	(33,380)	(3,558)
	<hr/>	<hr/>
Net assets, beginning of year	590,309	97,631
	<hr/>	<hr/>
Net assets, end of year	<u>\$ 556,929</u>	<u>\$ 94,073</u>

The accompanying notes are an integral part of these financial statements.

CITY OF WHITE CLOUD
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2008

	Business-type Activities	Governmental Activities
	Water Enterprise Fund	Internal Service Funds
Cash flows from operating activities		
Cash received from customers	\$ 178,064	\$ -
Cash received from other funds	-	157,726
Cash payments to suppliers for goods and services	(45,623)	(45,491)
Cash payments to employees for services	(69,587)	(108,030)
	<u>62,854</u>	<u>4,205</u>
Net cash provided by operating activities		
	<u>62,854</u>	<u>4,205</u>
Cash flows from non-capital financing activities		
Transfers from other funds	-	13,284
	<u>-</u>	<u>13,284</u>
Cash flows from capital and related financing activities		
Acquisitions of capital assets	(7,700)	(3,950)
Principal paid on long-term debt	(24,500)	(10,186)
Interest and fiscal charges	(21,257)	(740)
	<u>(53,457)</u>	<u>(14,876)</u>
Net cash used in capital and related financing activities		
	<u>(53,457)</u>	<u>(14,876)</u>
Cash flows from investing activities		
Interest income	2,546	2,123
	<u>2,546</u>	<u>2,123</u>
Net increase (decrease) in cash and investments	11,943	4,736
Cash and investments, beginning of year	65,937	98,172
	<u>65,937</u>	<u>98,172</u>
Cash and investments, end of year	<u>\$ 77,880</u>	<u>\$ 102,908</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income (loss)	\$ (14,669)	\$ (18,225)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	60,802	14,827
Changes in assets and liabilities which provided (used) cash:		
Accounts receivable	2,268	-
Inventory	394	-
Prepays	(3,984)	(798)
Accounts payable	13,727	1,058
Accrued liabilities	1,020	5,083
Compensated absences	3,296	2,260
	<u>3,296</u>	<u>2,260</u>
Net cash provided by operating activities	<u>\$ 62,854</u>	<u>\$ 4,205</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF WHITE CLOUD

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of White Cloud (the “City”) was incorporated in 1851, under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, water services, recreation and cultural, public improvements, and general administrative services.

The accounting policies of the City conform to generally accepted accounting principles. The following is a summary of the significant policies:

The Reporting Entity

As required by generally accepted accounting principles, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations, so data from these units are combined with data of the primary government. The City has no blended component units. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the City.

Discretely Presented Component Unit

Downtown Development Authority – The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, to encourage historical preservation, and to promote economic growth within the downtown district. The members of the governing board of the Downtown Development Authority are appointed by the City Council. The budgets and expenditures of the Downtown Development Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Downtown Development Authority.

Complete financial statements for the component unit are not separately prepared.

Joint Ventures

The City and the Township of Sherman jointly form the White Cloud Sherman Utility Authority to provide sewer services for the two entities. The City has guaranteed 26.4% of the sewer system bonded debt. The outstanding bonded debt at June 30, 2008 is \$642,500. The City's potential responsibility is \$169,620. This amount has not been recorded as a liability of the City.

The City and the Townships of Everett, Lincoln, Sherman and Wilcox jointly operate the White Cloud Area Fire Department to provide fire protection services for the five entities. For the fiscal year ended March 31, 2008, the City provided \$24,016 to the Fire District which represented 12.4% of its operating revenue. As of March 31, 2008, the Fire District had no long-term debt.

The joint ventures of the City are not considered a part of the reporting entity of the City. Separate financial statements of the joint ventures may be obtained separately from them.

CITY OF WHITE CLOUD

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from the legally separate *component unit* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. After March 1 of each year, the delinquent real property taxes are paid by the County to other units of government and the County is responsible for collecting any outstanding real property taxes as of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, or within one year for reimbursement based grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and accrued employee benefit expenditures are recorded only when payment is due.

Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

CITY OF WHITE CLOUD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Streets Fund* is used to account for construction, maintenance, and repair of the City's major streets.

The City reports the following major proprietary fund:

Water Fund – This fund is used to account for the cost of providing water to City residents and collecting and treating wastewater. Revenues are chiefly from service charges to customers. These revenues are also used to pay principal and interest on revenue bonds and general obligation bonds which were used to finance improvements to the system.

Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for revenue from specific revenue sources (other than major capital projects) and related expenditures which are restricted for specific purposes by administrative action or law.

The *Debt Service Fund* accounts for some of the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

The *Capital Projects Funds* are used to account for the financial resources and activities relating to specific construction projects.

The *Internal Service Funds* are used to account for major machinery and equipment purchases, maintenance, and to account for compensated absences.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF WHITE CLOUD

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets and Budgetary Accounting

Budgets are adopted for general and special revenue funds on a basis consistent with generally accepted accounting principles (GAAP). The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all funds.
5. Adoption and amendments of all budgets used by the City are governed by Public Act 621, which was followed for the year ended June 30, 2008. Expenditures may not exceed appropriations. The appropriations resolutions are based on the projected expenditures budget of the department heads of the City. Any amendments to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the City Council.
6. Budgets for expenditures are adopted at the functional level.
7. Budgeted amounts are as originally adopted, or as amended by the City Council.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the City considers all highly liquid investments with an original maturity of three months or less to be cash and cash equivalents.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. All receivables were determined by management to be collectible at year end.

Inventory

Inventory is valued at the lower of cost or market, on the first-in first-out basis.

Prepaid Items

The City incurred expenses prior to year-end for services that will be performed in the next fiscal year. In these situations, the City records an asset to reflect the investment in future services.

CITY OF WHITE CLOUD

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Depreciation on capital assets (including infrastructure) of the primary government, as well as the component units, is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and building improvements	20 - 30
Machinery, equipment, and vehicles	3 - 10

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. For new bond issuances of governmental funds after the implementation of GASB Statement No. 34 and all proprietary fund bond issues, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Property Taxes

City property taxes are attached as an enforceable lien on property as of July 1st. Taxes are levied July 1 and are due without penalty on or before August 31. These summer tax bills include the City's own property taxes and taxes billed on behalf of other districts within the City limits. Real property taxes not collected are returned to the County for collection, which advances the City 100% for the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

CITY OF WHITE CLOUD

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Compensated Absences

It is the City's policy to permit employees to accumulate earned unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds as it becomes due for payments (when the time is used or employment is terminated).

Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies or advances are determined by the City.

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2008, the City carried commercial insurance to cover all risks of losses. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years. There was no significant change in coverage during the year.

2. EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS

During the year ended June 30, 2008, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund			
General Government	\$ 202,517	\$ 208,045	\$ 5,528
Public works	113,427	115,344	1,917
Recreation and cultural	22,098	22,204	106
Transfers out	-	20,770	20,770

CITY OF WHITE CLOUD

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008

3. DEPOSITS AND INVESTMENTS

The captions on the government-wide and fund statements relating to cash and cash equivalents and deposits are as follows:

	Governmental Activities	Business-type Activities	Component Unit	Total
Cash and investments	\$ 318,708	\$ 77,880	\$ 151,571	\$ 548,159

Deposits and investments consist of the following at June 30, 2008

Checking and savings accounts	\$129,848
Certificates of deposit (due within one year)	215,798
Petty cash	925
Investments	201,588
Total	\$548,159

These deposits are in two (2) financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. They are recorded in City records at cost. Interest is recorded when earned.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require, and the City does not have, a policy for deposit custodial credit risk. As of year-end, \$130,807 of the City's bank balance of \$330,807 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

The City chooses to disclose its investments by specifically identifying each. As of year-end, the City had the following investments:

	Maturity	Fair Value	Rating
MBIA Class Fund	N/A	\$201,588	AAA/V1+

CITY OF WHITE CLOUD

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008

Investment Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified under “statutory authority” below. The City’s investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The investment identified above has no maturity date.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of the City’s specific financial institutions, qualified mutual funds, and qualified external investment pools as identified in “statutory authority” below. The investment policy does not have specific limits in excess of state law on investment credit risk. The credit rating on the City’s investment is identified above.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City minimizes custodial credit risk by limiting investments to the types of securities listed in the City’s investment policy and by pre-qualifying the financial institutions, broker/dealers, intermediaries, set forth in accordance with the City’s investment policy. Of the above mutual fund investments the District’s custodial credit risk exposure cannot be determined because the mutual funds do not consist of specifically identifiable securities.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk. The City minimizes concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. All investments held at year-end are reported above.

Statutory Authority

State statutes authorize the City to invest in:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

CITY OF WHITE CLOUD

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008

4. CAPITAL ASSETS

Changes in capital assets for the year ending June 30, 2008 are as follows:

	Balance July 1, 2007 (as restated)	Additions	Disposals	Balance June 30, 2008
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 3,101,500	\$ 165,000	\$ -	\$ 3,266,500
Capital assets, being depreciated:				
Buildings and improvements	483,976	-	-	483,976
Machinery, vehicles and equipment	415,894	32,239	(34,965)	413,168
	899,870	32,239	(34,965)	897,144
Less accumulated depreciation for:				
Buildings and improvements	(256,017)	(14,141)	-	(270,158)
Machinery, vehicles and equipment	(353,266)	(16,843)	34,965	(335,144)
Total accumulated depreciation	(609,283)	(30,984)	34,965	(605,302)
Net capital assets, being depreciated	290,587	1,255	-	291,842
Net capital assets - governmental activities	\$ 3,422,087	\$ 166,295	\$ -	\$ 3,558,342
Business-type activities				
Capital assets being depreciated:				
Water system	\$ 2,197,235	\$ 7,700	\$ (33,825)	\$ 2,171,110
Less accumulated depreciation for:				
Water system	(1,029,687)	(60,802)	33,825	(1,056,664)
Net capital assets – business-type activities	\$ 1,167,548	\$ (53,102)	\$ -	\$ 1,114,446
Downtown Development Authority				
Capital assets, not being depreciated:				
Land	\$ 28,840	\$ -	\$ -	\$ 28,840
Capital assets, being depreciated:				
Machinery, vehicles and equipment	4,905	-	-	4,905
Less accumulated depreciation for:				
Machinery, vehicles and equipment	(1,963)	(491)	-	(2,454)
Total capital assets being depreciated, net	2,942	(491)	-	2,451
Net capital assets – Downtown Development Authority	\$ 31,782	\$ (491)	\$ -	\$ 31,291

CITY OF WHITE CLOUD

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 5,816
Public works	6,000
Recreation and cultural	4,341
Internal service fund	<u>14,827</u>
Total depreciation expense – governmental activities	<u>\$ 30,984</u>
Business-type activities:	
Water	<u>\$ 60,802</u>

5. LONG-TERM DEBT

The following is a summary of debt transactions of the City for the year ended June 30, 2008:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>	<u>Due Within One Year</u>
Governmental activities					
Loan payable – MEDC due in quarterly installments of \$8,261 through 2019 with interest at 6.00%	\$ 268,804	\$ -	\$ -	\$ 268,804	\$ 17,295
Loan payable – MEDC due in quarterly installments of \$4,672 to \$18,000 through 2015 with interest at 0%	130,672	-	24,672	106,000	18,000
Note payable – 2005 Chevrolet, due in quarterly installments of \$1,273 through 2010 with interest at 8.15%	8,226	-	4,558	3,668	3,668
Note payable – 2006 Ford, due in quarterly installments of \$1,553 through 2009 with interest at 4.60%	<u>14,577</u>	<u>-</u>	<u>5,628</u>	<u>8,949</u>	<u>5,896</u>
Subtotal installment debt	422,279	-	34,858	387,421	44,859
Compensated absences	<u>33,346</u>	<u>13,825</u>	<u>11,565</u>	<u>35,606</u>	<u>12,348</u>
Total governmental activities	<u>\$ 455,625</u>	<u>\$ 13,825</u>	<u>\$ 46,423</u>	<u>\$ 423,027</u>	<u>\$ 57,207</u>
Business-type activities					
1992 revenue bonds payable in annual installments of \$19,500 to \$40,000 through 2029 with interest at 2.50%	\$ 690,000	\$ -	\$ 24,500	\$ 665,500	\$ 24,500
Compensated absences	<u>7,099</u>	<u>69</u>	<u>3,365</u>	<u>10,395</u>	<u>4,928</u>
Total business-type activities	<u>\$ 697,099</u>	<u>\$ 69</u>	<u>\$ 27,865</u>	<u>\$ 675,895</u>	<u>\$ 29,428</u>

CITY OF WHITE CLOUD

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008

The annual requirements, excluding compensated absences, to maturity on the total long-term obligations outstanding at June 30, 2008 are as follows:

	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2009	\$ 44,859	\$ 16,218	\$ 24,500	\$ 16,331
2010	39,409	14,745	24,500	15,719
2011	37,482	13,564	24,500	15,106
2012	38,677	12,368	24,500	14,494
2013	39,947	11,100	24,500	13,881
2014-2018	147,662	33,569	133,000	59,963
2019-2023	39,385	1,796	155,000	41,812
2024-2028	-	-	175,000	20,938
2029	-	-	80,000	2,000
	\$ 387,421	\$ 103,360	\$ 665,500	\$ 200,244

6. DEFINED BENEFIT PENSION PLAN

Municipal Employees Retirement System of Michigan

The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan providing retirement, death and disability benefits covering full-time City employees. The System is administered by the MERS retirement board. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

The City is required to contribute at an actuarially determined rate; the current rate is 14.75% of annual covered payroll. Employee contributions are not required. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the City depending on the MERS contribution program adoption by the City.

For the year ended June 30, 2008 the City's annual pension cost for MERS of \$37,338 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2007 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment of 20% of the difference between assumed earnings and market value (5 year seniority) to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2007, the date of the latest actuarial valuation, was 30 years.

CITY OF WHITE CLOUD

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008

Three-Year Trend Information

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2005	\$ 28,083	100%	\$ -
2006	33,658	100%	-
2007	37,338	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio Total</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/05	\$ 348,476	\$ 517,020	\$ 168,544	67%	\$ 180,515	93%
12/31/06	400,757	554,680	153,923	72%	227,455	68%
12/31/07	456,470	620,136	163,666	74%	223,780	73%

7. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with IRS section 457. The plan, available to all City employees, permits them to defer a portion of their current salary until future years. A trust has been established for the plan assets and the related assets and liability are not included in the City's financial statements.

8. TRANSFERS

	<u>Cemetery</u>	<u>Park</u>	<u>Internal Service</u>	<u>Total</u>
Transfers out by fund:				
General	<u>\$ 5,989</u>	<u>\$ 1,497</u>	<u>\$ 13,284</u>	<u>\$ 20,770</u>

Transfers were made from the General Fund to cover operating deficits in various funds.

9. RELATED PARTY TRANSACTIONS

During the year, the City incurred expenditures of approximately \$6,131 for equipment rentals in the Department of Public Works under a contract with Barnhard Construction, which is owned by the City's Mayor. At year end, the City had no outstanding balance payable to Barnhard Construction for these services. The rental rates paid to Barnhard Construction were in compliance with Schedule C of Act 51, as established by the Michigan Department of Transportation.

CITY OF WHITE CLOUD

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008

10. PRIOR PERIOD ADJUSTMENT

Beginning net assets of governmental activities were decreased by \$30,000 to remove land that had been included on the City's capital asset schedule, but had been transferred to another government in a prior year. The restatement resulted in a decrease to beginning net assets of governmental activities of \$30,000.

* * * * *

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

GENERAL FUND

CITY OF WHITE CLOUD
General Fund
Detailed Schedule of Expenditures
Budget and Actual
For the Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance With Final Budget
Legislative				
City Council and Mayor:				
Salaries and wages	\$ 5,250	\$ 5,250	\$ 5,426	\$ 176
Social security	161	161	208	47
Workers' compensation	11	11	5	(6)
Printing and publishing	2,500	2,500	2,002	(498)
Dues	1,700	1,700	1,410	(290)
Total legislative	9,622	9,622	9,051	(571)
General Government				
Elections:				
Salaries and wages	1,000	1,000	1,642	642
Supplies	1,100	1,100	919	(181)
Printing and publishing	500	500	86	(414)
Miscellaneous	100	100	21	(79)
Total elections	2,700	2,700	2,668	(32)
Assessor:				
Contracted services	1,025	1,025	215	(810)
Supplies	350	350	381	31
Miscellaneous	12,625	12,425	7,208	(5,217)
Total assessor	14,000	13,800	7,804	(5,996)
Attorney	2,000	14,700	25,851	11,151
Building and grounds:				
Telephone	8,000	8,000	6,414	(1,586)
Professional services	10,200	10,200	9,482	(718)
Supplies	5,000	5,000	2,084	(2,916)
Postage	1,500	1,500	2,643	1,143
Utilities	8,000	8,000	7,749	(251)
Repairs and maintenance	1,800	1,800	2,732	932
Miscellaneous	600	600	185	(415)
Total building and grounds	35,100	35,100	31,289	(3,811)
Manager and clerk:				
Salaries and wages	61,158	61,158	62,175	1,017
Social security	4,679	4,679	4,899	220
Health insurance	5,342	7,287	7,937	650
Retirement	3,590	4,625	5,131	506
Life insurance	353	353	434	81
Workers' compensation	258	258	1,043	785
Miscellaneous	650	650	108	(542)
Total manager and clerk	76,030	79,010	81,727	2,717
Board of review:				
Salaries and wages	800	800	630	(170)
Printing and publishing	200	200	234	34
Total board of review	1,000	1,000	864	(136)

(Continued)

CITY OF WHITE CLOUD
General Fund
Detailed Schedule of Expenditures
Budget and Actual (Continued)
For the Year Ended June 30, 2008

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
General government (continued):				
Treasurer:				
Salaries and wages	\$ 18,551	\$ 18,951	\$ 18,775	\$ (176)
Social security	1,420	1,420	1,486	66
Health insurance	3,415	4,415	4,734	319
Retirement	2,371	3,071	3,135	64
Life insurance	97	97	117	20
Dues and subscriptions	250	250	35	(215)
Supplies	600	600	53	(547)
Professional services	750	1,350	1,292	(58)
Miscellaneous	403	403	406	3
	<u>27,857</u>	<u>30,557</u>	<u>30,033</u>	<u>(524)</u>
Total treasurer				
	<u>1,000</u>	<u>1,100</u>	<u>2,008</u>	<u>908</u>
Public relations				
	<u>1,000</u>	<u>1,100</u>	<u>2,008</u>	<u>908</u>
Other:				
Interest expense	-	-	1,465	1,465
Audit	3,950	3,950	3,950	-
Liability insurance	13,000	13,000	12,120	(880)
City hall expenses	2,000	4,600	5,266	666
Economic development	3,000	3,000	3,000	-
	<u>21,950</u>	<u>24,550</u>	<u>25,801</u>	<u>1,251</u>
Total other				
	<u>181,637</u>	<u>202,517</u>	<u>208,045</u>	<u>5,528</u>
Total general government				
	<u>181,637</u>	<u>202,517</u>	<u>208,045</u>	<u>5,528</u>
Public safety:				
Police:				
Salaries and wages	97,345	97,345	83,663	(13,682)
Social security	7,627	7,627	7,487	(140)
Health insurance	12,279	12,279	16,648	4,369
Retirement	12,875	12,875	8,689	(4,186)
Life insurance	435	435	389	(46)
Workers' compensation	2,240	2,240	3,153	913
Office supplies	1,500	1,500	2,440	940
Uniform expense	1,200	1,200	1,469	269
Professional services	5,200	5,200	4,023	(1,177)
Gas and oil	-	-	1,437	1,437
Wrecker fees	2,000	2,000	1,245	(755)
Liability insurance	2,400	2,400	2,238	(162)
Repairs and maintenance	-	-	730	730
Miscellaneous	2,445	2,445	829	(1,616)
Training and memberships	1,000	1,000	696	(304)
Equipment rental	16,400	16,400	16,400	-
	<u>164,946</u>	<u>164,946</u>	<u>151,536</u>	<u>(13,410)</u>
Total police				
	<u>164,946</u>	<u>164,946</u>	<u>151,536</u>	<u>(13,410)</u>
Fire				
	<u>24,000</u>	<u>24,100</u>	<u>24,016</u>	<u>(84)</u>

(Continued)

CITY OF WHITE CLOUD
General Fund
Detailed Schedule of Expenditures
Budget and Actual (Concluded)
For the Year Ended June 30, 2008

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Public safety (continued):				
Zoning:				
Salaries and wages	\$ 8,342	\$ 8,342	\$ 4,281	\$ (4,061)
Social security	683	683	532	(151)
Retirement	1,439	1,439	528	(911)
Miscellaneous	<u>3,291</u>	<u>3,291</u>	<u>1,336</u>	<u>(1,955)</u>
Total zoning	<u>13,755</u>	<u>13,755</u>	<u>6,677</u>	<u>(7,078)</u>
Total public safety	<u>202,701</u>	<u>202,801</u>	<u>182,229</u>	<u>(20,572)</u>
Public works				
Department of public works:				
Salaries and wages	39,303	39,303	40,342	1,039
Social security	3,007	3,007	3,086	79
Health insurance	6,400	6,400	8,213	1,813
Retirement	5,691	5,691	5,786	95
Life insurance	194	194	235	41
Operating supplies	5,000	5,000	6,268	1,268
Gas and oil	-	-	53	53
Liability insurance	900	900	839	(61)
Utilities	7,000	7,000	6,639	(361)
Street lighting	27,000	27,000	27,083	83
Repairs and maintenance	800	800	1,948	1,148
Miscellaneous	<u>14,932</u>	<u>14,932</u>	<u>13,462</u>	<u>(1,470)</u>
Total department of public works	<u>110,227</u>	<u>110,227</u>	<u>113,954</u>	<u>3,727</u>
Dam	<u>200</u>	<u>200</u>	<u>146</u>	<u>(54)</u>
Airport	<u>3,000</u>	<u>3,000</u>	<u>1,244</u>	<u>(1,756)</u>
Total public works	<u>113,427</u>	<u>113,427</u>	<u>115,344</u>	<u>1,917</u>
Recreation and cultural				
Parks and recreation:				
Salaries and wages	5,804	5,804	5,210	(594)
Social security	444	444	399	(45)
Repairs and maintenance	2,000	3,500	4,493	993
Utilities	4,600	4,600	6,755	2,155
Operating supplies	3,000	3,000	1,077	(1,923)
Liability insurance	600	600	559	(41)
Miscellaneous	<u>2,350</u>	<u>4,150</u>	<u>3,711</u>	<u>(439)</u>
Total recreation and cultural	<u>18,798</u>	<u>22,098</u>	<u>22,204</u>	<u>106</u>
Total expenditures	<u>\$ 526,185</u>	<u>\$ 550,465</u>	<u>\$ 536,873</u>	<u>\$ (13,592)</u>

(Concluded)

NONMAJOR GOVERNMENTAL FUNDS

CITY OF WHITE CLOUD
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008

	Special Revenue			
	Local Streets	Cemetery	Drug Enforcement	Economic Development
Assets				
Cash and investments	\$ 28,288	\$ 151	\$ 2,474	\$ -
Due from other governments	5,427	-	-	-
Prepaid items	559	399	-	-
Total assets	\$ 34,274	\$ 550	\$ 2,474	\$ -
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ -	\$ 32	\$ -	\$ -
Accrued liabilities	-	518	-	-
Total liabilities	-	550	-	-
Fund balances				
Reserved:				
Prepaid items	559	399	-	-
Unreserved - undesignated (deficit)	33,715	(399)	2,474	-
Total fund balances	34,274	-	2,474	-
Total liabilities and fund balances	\$ 34,274	\$ 550	\$ 2,474	\$ -

<u>Police Grant</u>	<u>Park</u>	<u>Debt Service</u>	<u>Capital Projects</u>		<u>Totals</u>
		<u>Local Development</u>	<u>Improvement Revolving</u>	<u>Land Acquisition</u>	
\$ 580	\$ 3,204	\$ 550	\$ 22,088	\$ 31,861	\$ 89,196
-	-	-	-	-	5,427
-	-	-	-	-	958
<u>\$ 580</u>	<u>\$ 3,204</u>	<u>\$ 550</u>	<u>\$ 22,088</u>	<u>\$ 31,861</u>	<u>\$ 95,581</u>
\$ -	\$ 3,204	\$ -	\$ -	\$ -	\$ 3,236
-	-	-	-	-	518
-	3,204	-	-	-	3,754
-	-	-	-	-	958
580	-	550	22,088	31,861	90,869
580	-	550	22,088	31,861	91,827
<u>\$ 580</u>	<u>\$ 3,204</u>	<u>\$ 550</u>	<u>\$ 22,088</u>	<u>\$ 31,861</u>	<u>\$ 95,581</u>

CITY OF WHITE CLOUD
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds
June 30, 2008

	Special Revenue			
	Local Streets	Cemetery	Drug Enforcement	Economic Development
Revenues				
Intergovernmental:				
State	\$ 33,119	\$ -	\$ -	\$ -
Local	-	-	-	1,344
Charges for services	-	4,800	-	-
Interest	1,518	(50)	86	-
Other	-	-	25	-
	<u>-</u>	<u>-</u>	<u>25</u>	<u>-</u>
 Total revenues	 <u>34,637</u>	 <u>4,750</u>	 <u>111</u>	 <u>1,344</u>
 Expenditures				
Current:				
General government	-	14,755	-	-
Public safety	-	-	445	-
Public works	39,382	-	-	-
Recreation and cultural	-	-	-	-
Community and economic development	-	-	-	12,145
Debt service:				
Principal	-	-	-	-
Interest expense	-	-	-	-
Capital outlay	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total expenditures	 <u>39,382</u>	 <u>14,755</u>	 <u>445</u>	 <u>12,145</u>
 Revenues over (under) expenditures	 (4,745)	 (10,005)	 (334)	 (10,801)
 Other financing sources (uses)				
Transfers in	-	5,989	-	-
	<u>-</u>	<u>5,989</u>	<u>-</u>	<u>-</u>
 Net change in fund balances	 (4,745)	 (4,016)	 (334)	 (10,801)
 Fund balances, beginning of year	 <u>39,019</u>	 <u>4,016</u>	 <u>2,808</u>	 <u>10,801</u>
 Fund balances, end of year	 <u><u>\$ 34,274</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ 2,474</u></u>	 <u><u>\$ -</u></u>

<u>Police Grant</u>	<u>Park</u>	<u>Debt Service</u>	<u>Capital Projects</u>		<u>Totals</u>
		<u>Local Development</u>	<u>Improvement Revolving</u>	<u>Land Acquisition</u>	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 33,119
3,000	10,378	-	3,724	9,655	28,101
-	1,366	-	-	-	6,166
-	28	-	-	-	1,582
-	-	-	-	-	25
<u>3,000</u>	<u>11,772</u>	<u>-</u>	<u>3,724</u>	<u>9,655</u>	<u>68,993</u>
-	-	-	-	-	14,755
2,420	-	-	-	-	2,865
-	-	-	-	-	39,382
-	3,518	-	-	-	3,518
-	-	-	-	-	12,145
-	-	-	-	24,672	24,672
-	-	250	-	-	250
-	11,780	-	45,224	3,230	60,234
<u>2,420</u>	<u>15,298</u>	<u>250</u>	<u>45,224</u>	<u>27,902</u>	<u>157,821</u>
580	(3,526)	(250)	(41,500)	(18,247)	(88,828)
-	1,497	-	-	-	7,486
580	(2,029)	(250)	(41,500)	(18,247)	(81,342)
-	2,029	800	63,588	50,108	173,169
<u>\$ 580</u>	<u>\$ -</u>	<u>\$ 550</u>	<u>\$ 22,088</u>	<u>\$ 31,861</u>	<u>\$ 91,827</u>

INTERNAL SERVICE FUNDS

CITY OF WHITE CLOUD
Combining Statement of Net Assets
Internal Service Funds
June 30, 2008

	Compensated Absences Fund	Motor Pool Fund	Total
Assets			
Current assets:			
Cash and investments	\$ 41,275	\$ 61,633	\$ 102,908
Prepaid items	-	798	798
	<hr/>	<hr/>	<hr/>
Total current assets	41,275	62,431	103,706
Non-current assets:			
Capital assets being depreciated, net	-	47,174	47,174
	<hr/>	<hr/>	<hr/>
Total assets	<hr/> 41,275	<hr/> 109,605	<hr/> 150,880
Liabilities			
Current liabilities:			
Accounts payable	-	2,915	2,915
Accrued liabilities	5,669	-	5,669
Current portion of long-term debt	12,348	9,564	21,912
	<hr/>	<hr/>	<hr/>
Total current liabilities	18,017	12,479	30,496
Long-term liabilities:			
Compensated absences	23,258	-	23,258
Notes payable, net of current portion	-	3,053	3,053
	<hr/>	<hr/>	<hr/>
Total long-term liabilities	23,258	3,053	26,311
	<hr/>	<hr/>	<hr/>
Total liabilities	<hr/> 41,275	<hr/> 15,532	<hr/> 56,807
Net assets			
Invested in capital assets, net of related debt	-	34,557	34,557
Unrestricted	-	59,516	59,516
	<hr/>	<hr/>	<hr/>
Total net assets	<hr/> \$ -	<hr/> \$ 94,073	<hr/> \$ 94,073

CITY OF WHITE CLOUD
Combining Statement of Revenues, Expenses and
Changes in Fund Net Assets
Internal Service Funds
For the Year Ended June 30, 2008

	Compensated Absences Fund	Motor Pool Fund	Total
Operating revenues			
Charges for services	\$ 91,044	\$ 66,682	\$ 157,726
Operating expenses			
Personnel services	115,373	-	115,373
Materials and supplies	-	26,319	26,319
Repairs and maintenance	-	17,996	17,996
Insurance and bonds	-	932	932
Depreciation	-	14,827	14,827
Miscellaneous	-	504	504
Total operating expenses	115,373	60,578	175,951
Operating income (loss)	(24,329)	6,104	(18,225)
Nonoperating revenues (expenses)			
Interest income	-	2,123	2,123
Interest expense	-	(740)	(740)
Total non-operating revenues (expenses)	-	1,383	1,383
Net income before transfers	(24,329)	7,487	(16,842)
Transfers			
Transfers in	13,284	-	13,284
Change in net assets	(11,045)	7,487	(3,558)
Net assets, beginning of year	11,045	86,586	97,631
Net assets, end of year	\$ -	\$ 94,073	\$ 94,073

CITY OF WHITE CLOUD
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2008

	Compensated Absences Fund	Motor Pool Fund	Total
Cash flows from operating activities			
Cash received from other funds	\$ 91,044	\$ 66,682	\$ 157,726
Cash payments to suppliers for goods and services	-	(45,491)	(45,491)
Cash payments to employees for services	(108,030)	-	(108,030)
	<u>(16,986)</u>	<u>21,191</u>	<u>4,205</u>
Net cash provided by operating activities			
	<u>(16,986)</u>	<u>21,191</u>	<u>4,205</u>
Cash flows from non-capital financing activities			
Transfers from other funds	13,284	-	13,284
	<u>13,284</u>	<u>-</u>	<u>13,284</u>
Cash flows from capital and related financing activities			
Acquisitions of capital assets	-	(3,950)	(3,950)
Principal paid on long-term debt	-	(10,186)	(10,186)
Interest and fiscal charges	-	(740)	(740)
	<u>-</u>	<u>(740)</u>	<u>(740)</u>
Net cash used in capital and related financing activities			
	<u>-</u>	<u>(14,876)</u>	<u>(14,876)</u>
Cash flows from investing activities			
Interest income	-	2,123	2,123
	<u>-</u>	<u>2,123</u>	<u>2,123</u>
Net increase in cash and pooled investments	(3,702)	8,438	4,736
Cash and investments, beginning of year	44,977	53,195	98,172
	<u>44,977</u>	<u>53,195</u>	<u>98,172</u>
Cash and investments, end of year	<u>\$ 41,275</u>	<u>\$ 61,633</u>	<u>\$ 102,908</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income (loss)	\$ (24,329)	\$ 6,104	\$ (18,225)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	-	14,827	14,827
Changes in assets and liabilities which provided (used) cash:			
Prepaid items	-	(798)	(798)
Accounts payable	-	1,058	1,058
Accrued liabilities	5,083	-	5,083
Compensated absences	2,260	-	2,260
	<u>2,260</u>	<u>-</u>	<u>2,260</u>
Net cash provided by operating activities	<u>\$ (16,986)</u>	<u>\$ 21,191</u>	<u>\$ 4,205</u>

COMPONENT UNIT

CITY OF WHITE CLOUD
Downtown Development Authority
Balance Sheet / Statement of Net Assets
June 30, 2008

	<u>Operating Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
Assets			
Current assets:			
Cash and investments	\$ 151,571	\$ -	\$ 151,571
Noncurrent assets:			
Capital assets not being depreciated	-	28,840	28,840
Capital assets being depreciated, net	-	2,451	2,451
Total noncurrent assets	-	31,291	31,291
Total assets	<u>\$ 151,571</u>	<u>31,291</u>	<u>182,862</u>
Liabilities			
Accounts payable	\$ 5,400	-	5,400
Fund balance			
Unreserved - undesignated	146,171	(146,171)	-
Total liabilities and fund balance	<u>\$ 151,571</u>		
Net assets			
Invested in capital assets		31,291	31,291
Unrestricted		146,171	146,171
Total net assets		<u>\$ 177,462</u>	<u>\$ 177,462</u>

CITY OF WHITE CLOUD
Downtown Development Authority
Statement of Activities and Revenues, Expenditures
and Changes in Fund Balance
For the Year Ended June 30, 2008

	<u>Operating Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Revenues			
Taxes	\$ 114,863	\$ -	\$ 114,863
Interest	5,770	-	5,770
Other	1,480	-	1,480
	<u>122,113</u>	<u>-</u>	<u>122,113</u>
Expenditures/expenses			
Transfer to primary government	38,758	-	38,758
Other	24,754	491	25,245
	<u>63,512</u>	<u>491</u>	<u>64,003</u>
	<u>58,601</u>	<u>(491)</u>	<u>58,110</u>
Revenues over (under) expenditures			
Net change in fund balance	58,601	(491)	
Changes in net assets		(491)	58,110
Fund balances/net assets, beginning of year	<u>87,570</u>	<u>31,782</u>	<u>119,352</u>
Fund balances/net assets, end of year	<u><u>\$ 146,171</u></u>	<u><u>\$ 31,291</u></u>	<u><u>\$ 177,462</u></u>

INTERNAL CONTROL AND COMPLIANCE



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

December 12, 2008

Honorable Mayor and
Members of the City Council
City of White Cloud, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the ***City of White Cloud, Michigan***, as of and for the year ended June 30, 2008 which collectively comprise the City's basic financial statements as listed in the table of contents, and have issued our report thereon dated December 12, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of White Cloud, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of White Cloud, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of White Cloud, Michigan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

Finding 2008-1 – Preparation of Financial Statements in Accordance with GAAP

Criteria:	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
Condition:	As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.
Cause:	This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.
Effect:	As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
View of Responsible Officials:	The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Finding 2008-2 – Material Audit Adjustments

Criteria:	Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).
Condition:	During our audit, we identified and proposed several material adjustments (which were approved and posted by management) to adjust the City's general ledger to the appropriate balances. These adjustments affected long-term debt, accounts receivable, accounts payable, and capital assets.
Cause:	This condition was caused by management's decision that it is most cost effective for the City to rely on its external auditors to assist in adjusting some of the year-end balances.
Effect:	As a result of this condition, the City's accounting records were initially misstated by an amount material to the financial statements.
View of Responsible Officials:	The City considered the initial submittals to the auditors to be preliminary and the City typically requests assistance from the auditors in making final adjustments.

Finding 2008-3 – Segregation of Incompatible Duties

Criteria:	Management is responsible for establishing and maintaining effective internal controls in order to safeguard the assets of the City. A key element of internal control is the segregation of incompatible duties within the accounting function.
Condition:	The City has several transaction cycles that are performed by the same individual or are not subject to independent review and approval, including: (1) physically receiving cash, recording cash receipts, balancing the cash drawers, and depositing the cash, (2) reconciliation of bank statements for a portion of the year, (3) adding new vendors to the system, and (4) initiating and approving non-routine transactions, such as general journal entries.
Cause:	This condition is the result of staffing constraints typical of smaller governmental units.
Effect:	As a result of this condition, the City is exposed to increased risk that misstatement or misappropriations may occur and not be detected by management on a timely basis.
Recommendation:	While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.
View of Responsible Officials:	The City is aware of the risks associated with this condition, and has made the determination that given the City's limited resources, full segregation of duties is not feasible at this time. Accordingly, the City will continue to review monthly information to mitigate this risk, and rely on the annual external audit to help identify and correct misstatements, as needed.

Finding 2008-4 – Independent Review of Journal Entries

Criteria:	Management is responsible for establishing effective internal controls to safeguard the City's assets, and to prevent or detect misstatements to the financial statements. Journal entries, while an essential part of any accounting system, represent an opportunity to enter information into the City's records in a way that bypasses normal internal controls. Accordingly, the City should have a system in place to ensure that all journal entries and similar adjustments made to the City's accounting records are reviewed and approved by an appropriate member of management independent of the preparer.
Condition:	The City's policies and procedures in place during the fiscal year under audit did not consistently require any independent review or approval of journal entries made by members of senior management.
Cause:	This condition is the result of staffing limitations, and management not initially recognizing the importance of establishing such controls.
Effect:	While we are not aware of any actual misstatements caused by this condition, the City was nevertheless exposed to an increased risk that misstatements, whether caused by error or fraud, could occur and not be detected or prevented.
View of Responsible Officials:	The City now realizes the risk involved and will have the City Manager review and approve all journal entries. Since year end, the City has improved its internal controls over journal entries. The City Manager now reviews all journal entries, and documents approval.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe that findings 2008-1 and 2008-2 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of White Cloud, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of White Cloud, Michigan in a separate letter dated December 12, 2008.

The City of White Cloud's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of White Cloud's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

December 12, 2008

To the City Council of the
City of White Cloud
White Cloud, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *City of White Cloud* (the “City”) for the year ended June 30, 2008, and have issued our report thereon dated December 12, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated July 18, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of City’s compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters on September 8, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. As described in Finding 2008-2 in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards, we proposed (and management approved) various adjustments to the City's financial statements. In our opinion, when these adjustments were aggregated, they had a material effect on the City's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 12, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the City of White Cloud and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Lobson". The signature is written in a cursive, flowing style with a large initial 'L'.

City of White Cloud, Michigan

Comments and Recommendations

For the Year Ended June 30, 2008

In planning and performing our audit of the financial statements of the City of White Cloud (the "City") as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be material weaknesses are described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

City of White Cloud, Michigan

Comments and Recommendations

For the Year Ended June 30, 2008

Other Matters

Timeliness and Approval of Bank Reconciliations

During our auditing procedures over cash, we noted that the City did not prepare bank reconciliations in a timely manner for the months of January through May of 2008. Additionally, it was noted that while there is an independent review process in place for the bank reconciliations, this approval is not documented. We recommend that the City complete bank reconciliations within six weeks of the bank statement end date. We also recommend the independent reviewer document his or her approval by initialing and dating each reconciliation reviewed. Since year end, management has improved the timeliness of bank reconciliations and now documents approval after independent review of all bank reconciliations.

Investment Policy – repeat comment

During the audit, it was noted that the City is not adhering to its investment policy. The City's policy requires the City to diversify their cash accounts so that the amount held by each financial institution shall not exceed \$100,000. At year end, the amount invested with one financial institution exceeded this amount. In the prior year, we recommended that the City either adhere to its stated policy and diversify its cash holdings, or consider revising its policy to reflect its current practice. Subsequent to year end, the City Council approved an amendment to its investment policy, which increased the limit to \$250,000 held by each financial institution.

Credit Card Policy – repeat comment

The City has issued corporate credit cards to certain employees, but lacks a formal credit card usage policy, as required by State statute. In the prior year, we recommended that the City adopt such a policy and ensure that its employees are complying with it. Subsequent to year end, the City Council approved a formal credit card policy.

Purchase Policy

During the audit, it was noted that the City's purchase policy is outdated. The purchase policy requires all purchases over \$100.00 to be accompanied by the City Manager's approval and a purchase order, but a purchase order is not defined, and no purchase orders were noted throughout our testing. In addition, the City has no policy stating in which cases it is required to seek competitive bids for good or services. We also recommend the City amend the purchase policy to make the requirements of the policy more transparent and to state in which cases the City is required to seek competitive bids, and require approval prior to purchase.

City of White Cloud, Michigan

Comments and Recommendations

For the Year Ended June 30, 2008

Internal Controls over Information Technology

During our audit, we reviewed with management a list of recommended information technology controls. We noted various opportunities to enhance controls over IT as it relates to disaster recovery and formal IT policies and procedures. We recommend that the City review the suggested controls not currently in place and determine whether it would be cost beneficial to revise such controls in the future.

* * * * *